



# Department of Defense INSTRUCTION

NUMBER 7000.12

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Administrative Reissuance Incorporating through Change 3, December 17, 1990

ASD(FM&P)

SUBJECT: Financial Management of Morale, Welfare, and Recreational Activities

- References: (a) DoD Instruction 7000.12, subject as above, September 4, 1980 (hereby canceled)
- (b) [DoD Directive 5124.2](#), "Assistant Secretary of Defense (Force Management and Personnel)," July 5, 1985
  - (c) [DoD Directive 5118.3](#), "Assistant Secretary of Defense (Comptroller)," July 11, 1972
  - (d) through (bb), see enclosure E1.

## 1. REISSUANCE AND PURPOSE

This Instruction reissues and updates reference (a) to prescribe DoD financial management policies for morale, welfare, and recreational (MWR) activities, and provides guidance for nonappropriated fund financial management systems.

## 2. APPLICABILITY

This Instruction applies to the Office of the Secretary of Defense (OSD), and the Military Departments, (hereafter referred to collectively as "DoD Components"). The term "Military Services," as used herein, refers to the Army, Navy, Air Force, and Marine Corps.

## 3. DEFINITIONS

The terms used in this Instruction are defined in enclosure E2.

#### 4. POLICY

It is DoD policy that available resources be administered through sound financial management practices in an economical, efficient, and businesslike manner.

#### 5. RESPONSIBILITIES

5.1. The Assistant Secretary of Defense (Force Management and Personnel) (ASD(FM&P)), as stated in DoD Directive 5124.2 (reference (b)), is the principal staff assistant to the Secretary of Defense for religious, morale, discipline, and welfare matters. As such, he or she is assigned responsibility for military and civilian employee MWR programs within the Department of Defense.

5.2. The Assistant Secretary of Defense (Comptroller) (ASD(C)) and the General Counsel, Department of Defense (GC, DoD), shall fulfill MWR responsibilities, in coordination with the ASD(FM&P), consistent with DoD Directives 5118.3 and 5145.1 (references (c) and (d)).

5.3. The Heads of DoD Components shall manage and use the resources within their respective Components for MWR activities and shall:

5.3.1. Prescribe and implement budgeting, accounting, analysis and evaluation, auditing, and reporting policies, systems, and procedures to ensure efficient management.

5.3.2. Promulgate financial management policies.

5.3.3. Comply with the provisions of this Instruction.

5.3.4. Furnish financial information to comply with DoD Directive 5000.19 (reference (e)).

5.3.5. Submit annual financial reports in accordance with section 9., below, of this Instruction.

#### 6. BUDGETING

6.1. General. Budgets are prepared to provide financial data to operating

managers, officials immediately above the operating managers, and to commanders for management decision-making.

6.1.1. The organizational levels described in the budgets are determined by the DoD Component concerned, so long as provisions are made to present data by the categories in enclosure E3. Such budgets show the total program by anticipated appropriated and nonappropriated resources.

6.1.2. Appropriated fund data are shown by elements of expense described in DoD 7220.9-M (reference (f)). The budgetary process includes consideration of feasible alternatives when there are choices as to how program goals and objectives may be met.

6.2. Prescribed Budgets. The following budgets shall be prepared in formats considered most appropriate by the managing DoD Component:

6.2.1. Operating Budgets. Project income and expense and permit comparison and analysis of projected data with actual data.

6.2.2. Capital Budgets. Project expenditures for acquisition, construction, renovation, and expansion of capitalized fixed assets. The source of funding and estimated completion date shall be indicated.

6.2.3. Cash Budgets. Show the existing cash resources, anticipated cash receipts and disbursements, and forecast cash balances on specified dates. Cash budgets shall be derived from and reconciled with the operating and capital budgets.

6.3. Use of Budgets. Programmed performance shall be compared to actual performance and shall serve as a guide for correcting unfavorable variances.

## 7. ACCOUNTING

7.1. Appropriated Fund Accounting Systems. Appropriated fund accounting systems provide financial data to satisfy the requirements of DoD 7220.9-M (reference (f)) and this Instruction. Provisions shall be made to account for expenses by categories and by activities designated in enclosure E3., whether or not appropriated fund support is provided.

7.2. Nonappropriated Fund Accounting Systems. Accounting systems are maintained to meet requirements for nonappropriated fund financial data established

herein. Nonappropriated accounting systems must comply with generally accepted accounting principles, except when specifically authorized by the ASD(C). The organizational level at which data are accounted or maintained shall be determined by the DoD Component concerned. Provisions shall be made to report data to OSD by category as prescribed in DoD Directive 1015.1 (reference (g)), which is shown in enclosure E3. Income and expense data shall be maintained in the detail prescribed in enclosures E4. and E5. for those selected MWR activities shown in enclosure E3.

7.2.1. The Accrual Basis of Accounting. The accrual basis of accounting shall be used when accounting for nonappropriated funds of the Department of Defense. DoD Components may permit exceptions only when either the cash or accrual method of accounting produces essentially the same operating results and financial positions.

7.2.2. Extraordinary Items. Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. These must be of a character significantly different from the typical or customary business operation. Events and transactions identified as extraordinary shall be shown in the financial statements separately from ordinary operations.

7.2.3. Dividends and Grants. The distribution of all dividends by Armed Services Exchanges and other resale and revenue-sharing activities shall be recorded and reported as decreases in equity. The receipt of these dividends shall be recorded and reported as "non-operating income." Follow on distribution of other grants and dividends shall be recorded and reported as "other expense." The receipt of dividends and grants that support recurring operations shall be recorded and reported as "non-operating income." The receipt of grants for capital items shall be recorded and reported as equity transactions.

7.2.4. Equity Transactions. Transfers into and out of equity shall be limited to net income; net losses; prior year corrections; entries associated with establishment, disestablishment, or consolidation of nonappropriated fund instrumentalities (NAFIs); and the distribution and receipt of capital.

7.2.5. Tangible Fixed Assets. Tangible fixed assets purchased with nonappropriated funds, having minimums no greater than a useful life expectancy of more than 2 years and acquisition costs of \$300 for furniture, fixtures, and office equipment, and \$1,000 for all other property (including land, buildings, and other types of equipment) shall be capitalized in the nonappropriated fund accounting records. All NAFIs shall record and report capitalized fixed assets in subaccounts as follows:

7.2.5.1. NAFI Fixed Assets (Title remains with NAFI). To reflect acquisition cost (or estimated value if acquired by other than purchase), allowance for depreciation, and net book value.

7.2.5.2. Other Fixed Assets. Government real property facilities, improvements, and equipment procured with nonappropriated funds, title to which is transferred to the Government, to show nonappropriated funded acquisition cost, allowance for amortization, and net book value. An explanatory footnote shall be included in the balance sheet as follows: "The title of real property financed with nonappropriated funds and reported hereon is vested with the U.S. Government."

7.2.6. Depreciation and Amortization. Accounting for depreciation or amortization as a cost is an integral part of the accrual basis of accounting. Accordingly, capitalized assets paid with nonappropriated funds shall be depreciated over the expected useful lives of such assets. Depreciation and amortization shall be established and shown on the Income and Expense Statement (enclosure E4.). The useful lives and depreciation method shall be prescribed by DoD Components and disclosed in the notes to the financial statement.

7.2.7. Standard Fiscal Years. The fiscal year for all DoD NAFIs, except Armed Services Exchanges, begins on October 1 of each year and ends on September 30 of the following year. The fiscal year for all Armed Services Exchanges begins on February 1 of each year and ends on January 31 of the following year. A 15-day leeway is authorized for the beginning and ending dates for Armed Services Exchanges fiscal year periods when required to optimize the use of resources, simplify the performance of physical inventories, or other similar management actions.

7.2.8. Uniform Charts of Accounts. A uniform chart of accounts shall be established by each DoD Component to account for nonappropriated funds. A separate uniform chart of accounts may be prescribed for each of the exchange systems.

7.2.9. Inventory Valuation. The basis for valuing inventories must be consistently applied and disclosed in notes to the financial statements.

7.2.10. Purchase Discounts. In determining the cost of purchased property, discounts shall be deducted from the price billed. Such discounts are reductions of costs that represent savings achieved through payments of bills within vendor's stipulated time limits. They are not income and shall not be accounted for as such, since they do not produce an increase in assets based on the sale of goods or services.

In determining the cost of purchased property, the amount to be recorded shall be the net of discount. The value of discounts not taken shall be charged to operations as "discounts lost." This Instruction applies to inventory accounting systems maintained at cost value.

7.2.11. Internal Controls. Systems of internal control shall be developed, implemented, and maintained to ensure effectiveness of organization and the efficiency and economy of operations; to safeguard assets; to ensure the propriety of receipts and disbursements; and to ensure the accuracy and reliability of records and reports.

7.2.12. Concessionaire Operations. Policies regarding the control of concessionaire operations are prescribed in DoD Instruction 4105.67 (reference (h)). DoD Components shall prescribe accounting and reporting procedures to ensure that net income from concessionaires is included in the reports of NAFI income (enclosure E4.) required by this Instruction.

7.2.13. Reimbursements. DoD Components shall ensure that timely and accurate reimbursements are made when reimbursable transactions are required between nonappropriated and appropriated funds. Reimbursable transactions are processed according to procedures prescribed in DoD 7220.9-M (reference (f)).

## 8. INTERNAL FINANCIAL REPORTS

Consolidated appropriated and nonappropriated reports are prepared and issued as often as necessary to be of optimum use to management officials within DoD Components and to meet the standards of fairness of presentation, full disclosure, and timeliness. To assist management, in establishing and costing rate and price structures, individual nonappropriated fund instrumentalities (NAFI) should have data available that identifies all applicable expenses to include overhead.

## 9. OSD INFORMATION REQUIREMENTS

9.1. Annual Reporting. DoD Components shall submit annual consolidated summary reports to the ASD(FM&P) pertaining to the overall financial management of resources. Reports shall be consolidated by categories of MWR activities as defined in enclosure E3. (A list of activities within each category is contained in DoD Directive 1015.1 (reference (g))). Data elements and codes registered in DoD 5000.12-M (reference (i)) shall be used for the reporting requirements specified by this Instruction.

9.1.1. DoD Components shall submit only one report for each MWR category, except when a MWR category includes a joint-Service NAFI. In that case, they shall submit a separate consolidated report for the joint-Service NAFI, such as, Army/Air Force Civilian Welfare Fund.

9.1.2. Within each category, interfund transactions, such as dividend distributions and loans between NAFIs, including contrareceivables and payables, shall be eliminated, as necessary, to ensure that the consolidated reports for each category reflect the net results of operations and financial condition.

9.2. Types of Reports. Each report packet must contain Income and Expense Statements (enclosure E4.), Appropriated and Nonappropriated Fund Expense Summaries (enclosure E5.), Balance Sheets (enclosure E6.), Funds Invested/Validated Commitments (enclosure E8.), and Narrative Analyses, when appropriate. DoD Components using automated data processing (ADP) equipment may submit reports formatted differently than those prescribed, provided that all data requirements are met.

9.2.1. Balance Sheet and Income and Expense Statement. DoD Components shall submit an annual summary statement for each MWR category, in accordance with accounting policies contained in subsection 7.2., above. DoD Components may also submit any additional reports they consider appropriate.

9.2.2. Appropriated and Nonappropriated Fund Expense Summary (Schedule A to the Income and Expense Statement).

9.2.2.1. Data shall include all appropriated and nonappropriated fund support. Expenses shall be fully disclosed at all organizational levels for military and civilian personnel, construction, and all other direct and indirect operations and maintenance (O&M) applicable to MWR support.

9.2.2.2. General and Administrative (G&A) expenses, including command supervision, staff management functions, and common support services shall be allocated to benefiting categories based on workload. Particular care must be taken in reporting expenses for Category VIII, Supplemental Mission Services NAFIs, to ensure that these costs are directly related to the NAFI (such as, a billeting fund) and not to the mission (such as, billeting).

9.2.2.3. To avoid duplicate reporting, when one appropriation reimburses another appropriation (including Industrial and Research, Development, Test and Evaluation (RDT&E) Funds), data shall be provided under the appropriation

that provides initial financing. Under the Appropriated Amounts column, DoD Components shall show only the support that is nonreimbursable from nonappropriated funds.

9.2.2.4. Military personnel services (at rates prescribed in chapter 6 of DoD 7220.9-M (reference (f)), O&M, RDT&E, and Industrial Funds resources shall be reported in the fiscal year accrued costs are incurred.

9.2.2.5. The value of military construction and procurement appropriations support items shall be reported at cost, in accordance with chapter 36 of reference (f).

9.2.3. Funds Available/Projected Usage/Validated Commitment. Data shall include the name of the base, installation, command, or central fund maintaining the NAFI investment, the amount of such investment as of the end of the Federal Government's fiscal year, and the identification of the purposes for which these funds have been invested.

9.2.4. Narrative Analyses. DoD Components shall include narrative comments in the reporting submission for each category to ensure clarity in the data reported and/or to highlight significant operations and trends.

9.3. Due Dates. Report packets for all MWR categories shall be forwarded within 120 days after the end of the Federal Government's fiscal year, or the Armed Services Exchange's fiscal year.

9.4. Reporting Requirements. The reporting requirements prescribed herein are assigned Report Control Symbol DD-*FM&P(A)* 1344.

## 10. MANAGEMENT OF RESOURCES

10.1. General. Management of resources may be stated as the process of ensuring that the proper resources (appropriated and nonappropriated) are obtained and used effectively. Only appropriated fund resources authorized by DoD Directive 1015.4 (reference (j)) and by DoD Directive 1015.6 (reference (k)) may be used.

### 10.2. Nonappropriated Fund Resources

10.2.1. Cash. Cash balances shall be limited to the minimum required to satisfy immediate needs. The use of financial institutions operating on DoD



installations according to DoD Directive 1000.11 (reference (l)) is encouraged.

10.2.1.1. Funds shall not be maintained in a bank, savings association, or credit union unless they are insured by the applicable Federal insurer or notice is received of the institution's pledge of collateral to the U.S. Treasury under the terms of Treasury Department Circular 176 (reference (m)). Funds that exceed established insurance limits shall be collateralized. When cash balances exceed the pledged collateral through normal account activity, the NAFI will advise the financial institution to increase the collateral. The agency will advise the Treasury of the request for additional collateral and the Treasury will verify the additional collateral is at the Federal Reserve Bank and so advise the agency.

10.2.1.1.1. The applicable insurance agency for banks is the Federal Deposit Insurance Corporation (FDIC).

10.2.1.1.2. The Federal insurer for savings associations as defined in DoD Directive 1000.11 (reference (l)) are the Federal Savings and Loan Insurance Corporation (FSLIC) and the Federal Deposit Insurance Corporation (FDIC).

10.2.1.1.3. Federal insurance for credit unions is provided by the National Credit Union Share Insurance Fund (NCUSIF). DoD Instruction 1000.10 (reference (n)), provides that credit unions serving on DoD installations may be covered by any state-sponsored or private share insurance plan that is at least equal to the NCUSIF coverage required for Federal credit unions.

10.2.1.2. Funds maintained in U.S. Military Banking Facilities at overseas locations are collateralized to the U.S. Treasury under the terms of parent banking institution contracts with the Department of Defense. Funds, at minimum levels, may be maintained in other institutions overseas only with designation of the institution as a "depository and financial agent of the U.S. Government," by the Treasury Department. In making this designation, Treasury will attempt to obtain an agreement for collateralization. Noncollateralized dollar balances for foreign financial institutions will be limited to clearing/sweep accounts. Such balances must be maintained at minimum levels.

10.2.1.3. Cash account balances shall be in the form of U.S. currency, U.S. dollar instruments, or military payment certificates (MPCs) under the authority of DoD Instruction 7360.5 (reference (o)), except when foreign currency is required under paragraph 10.2.9., below.

10.2.2. Investments. Funds shall not be accumulated merely for investment (i.e., interest income) purposes. However, each DoD Component shall take action to ensure that adequate investments are established to fund replacement of tangible fixed assets, employee severance pay, pension plans, construction and alteration of facilities, mobilization contingencies, and new operational programs that may be introduced.

10.2.2.1. Each DoD Component shall ensure that the investments are not excessive to needs. To this end, the DoD Components shall establish procedures to require identification and classification of the purposes for which funds are invested by all NAFIs within the Components, including those working capital funds temporarily invested, awaiting use in future day-to-day NAFI operations. Management shall periodically review and document the investment needs of each NAFI to ensure that adequate funds have been invested properly to meet all future expenditures.

10.2.2.2. Each DoD Component shall establish, based on its cash management systems, positive programs to minimize the period of time during which NAPs are invested, awaiting expenditure for capital improvements. These programs should be based upon the premise of a "going concern" for all MWR categories; that is, capital expenditures financing should include future cash inflows and outflows in determining the amount of funds required to be available.

10.2.2.3. Each DoD Component shall exercise utmost caution to ensure the safety of invested funds. When dealing with financial institutions and their insurers, it is imperative that the NAFI be designated in writing as required by DoD Directive 1015.1 (reference (g)). Signatures of designated persons authorized to sign checks on behalf of NAFIs must be filed with the banks, savings associations, or credit unions. Balances in these institutions that exceed the amount insured (i.e., \$100,000) shall not be maintained until notice is received that the institution has pledged obligations (securities) of the U.S. Government or U.S. Government Agencies to cover the balance that exceeds \$100,000 according to Treasury Department Circular 176 (reference (m)). When fund balances excluding the insured amount exceed pledged securities, the NAFI will advise the financial institution to pledge additional securities to cover the excess balance. The NAFI will advise the Treasury of the request for additional securities. The Treasury will confirm the receipt of the additional securities at the Federal Reserve Bank and promptly advise the agency.

10.2.2.4. An interest in trust fund accounts for several organizations, individuals, or entities is limited to \$100,000 unless records are maintained of the balance for each organization, individual, or entity and has been accepted by the

insurer. If multiple coverage is desired, DoD Components must maintain records reflecting daily changes for each entity having an interest in the account; and in all cases the information must be available within 3 days. For example, if one NAFI has \$100,000 and another \$60,000, then total insurance coverage is \$160,000.

10.2.2.5. DoD Components shall ensure sufficient liquidity of investments while earning a competitive rate of return.

10.2.2.6. Management reviews of investment accounts shall be conducted to ensure adequacy of applicable investment regulations.

10.2.2.7. Investments of nonappropriated funds are limited to the following, with the exception of retirement funds. (For retirement funds, see paragraph 10.2.8.)

10.2.2.7.1. Banks. Interest-bearing checking accounts as provided by 12 U.S.C. 1832(a) (reference (p)), savings accounts, time deposits, and certificates of deposit to the amount insured by the FDIC, FSLIC or by pledge of collateral in accordance with Treasury Department Circular 176 (reference (m)).

10.2.2.7.2. Savings Associations. Interest-bearing checking accounts as provided by reference (p), savings accounts, share accounts, and certificates of deposit to the amount they are insured by the FDIC or FSLIC or by pledge of collateral in accordance with reference (m).

10.2.2.7.3. Credit Unions. Funds shall only be invested in credit unions insured in accordance with subparagraph 10.2.1.1.3. Amounts that exceed the established maximum insurance coverage shall be collateralized in accordance with Treasury Department Circular 176 (reference (m)) or approved in principle by the administrator of the NCUSIF for multiple NAFI accounts for larger amounts. Funds may not be invested in credit union certificates of indebtedness unless specific insurance coverage is extended to those accounts by the insurer.

10.2.2.7.4. U.S. Government Securities. Obligations of the Federal Government, guaranteed as to principal and interest by the U.S. Government or obligations issued by U.S. Government-Sponsored enterprises. Certain securities are guaranteed by the "full faith and credit" of the U.S. Government (principal and interest) while other securities are issued by "U.S. Government-sponsored enterprises." These "U.S. Government-sponsored enterprises" were established and chartered by the Federal Government and are sponsored by a Government Agency,

although they are privately owned and generally privately financed. Examples of securities that are "full faith and credit" and that are "Government-sponsored enterprises" are listed below (not all-inclusive):

<u>Full Faith &amp; Credit</u>	<u>Government-Sponsored Enterprises</u>
1. All U.S. Treasury Securities (Bills, Notes, & Bonds)	1. Farm Credit System: a. Banks for Cooperatives b. Federal Intermediate Bank Debentures c. Federal Land Bank
2. Department of Housing & Urban Development Community Development Block Grant	2. Federal Home loan Bank (FHLB)
3. Farmers Home Administration Certificates of Beneficial	3. Federal Home Loan Mortgage Ownership Corporation (FHLMC, "Freddie Mac")
4. Government National Mortgage	4. Federal National Mortgage Association (GNMA) Association (FNMA, "Fannie Mae")
5. Overseas Private Investment Corporation (OPIC)	5. Student Loan Marketing Association (SLMA, "Sallie Mae")
6. Small Business Administration: Small Business Investment Cos. State/Local Development Cos.	
7. U.S. Maritime Administration Title XI Ship Mortgage Bonds	

10.2.2.7.4.1. Investment managers should be aware of the differences between "full faith and credit" securities and "Government-sponsored enterprises" securities. Investments are permitted in both types of securities, although there is a greater risk associated with securities issued by Government-sponsored enterprises. Investment managers should consider this difference when purchasing such securities and should diversify the portfolio to always include securities that are "full faith and credit."

10.2.2.7.5. Repurchases and Reverse Repurchases of Book Entry and Certificate Securities. Repurchase and Reverse Repurchase agreements shall be limited to U.S. Government Securities and shall be made only with primary Government securities dealers designated by the Federal Reserve Bank of New York, or with banks that meet high capital adequacy standards established by the NAFI. Primary government securities dealers must meet and certify to the NAFI their compliance with the "Capital Adequacy Guidelines for U.S. Government Securities Dealers" as published by the Federal Reserve Bank of New York. The bank must meet capital adequacy standards established by the NAFI and confirmed by an independent bank rating service external to the NAFI rating procedures. NAFIs must require collateral in the amount of 100% of market value of the purchased security,

plus interest. Collateral for repurchase agreements is restricted to U.S. Government Full Faith and Credit Securities. To preclude frequent calls to mark-to-the market, collateral in the amount of 102% of market value plus interest is desirable for U.S. Treasury Securities (Bills, Notes and Bonds). Collateral in the amount of 104% of market value plus interest is desirable for all other U.S. Government Full Faith and Credit Securities.

10.2.2.7.5.1. Safekeeping of Repurchase Instruments. Book entries must be wired to a third-party bank selected by the NAFI. Alternatively, securities must be delivered to a bank designated by the NAFI. In either case, the instruments cannot be mingled with the assets of the bank, and the NAFI must receive a safekeeping receipt for the securities. Third party banks must meet the same rating standards as investment banks. Enclosure E9., attachment A1., contains the necessary language to provide the NAFI with a Power of Attorney to negotiate the securities, if necessary.

10.2.2.7.5.2. Selling Treasury Paper. For temporary use of funds, use enclosure E10., attachment A1., and handle the transaction in the same manner as the repurchase agreement.

10.2.2.7.5.3. Availability of Funds. In both cases, the funds should be available to the NAFI or the financial institution on the day the transaction is made. Interest begins on date of sale or purchase and ends on the day before the transaction is completed.

10.2.2.7.6. Eurodollar. If the Eurodollar market offers significantly higher yields, funds can be deposited with a U.S. bank dealing in this market. The bank must pledge collateral for all funds that exceed FDIC coverage with the Treasury Department under the terms of Treasury Department Circular 176 (reference (m)). Collateral must be sufficient to cover principal and interest at all times.

10.2.3. Receivables. Action shall be taken to collect receivables in a prompt and efficient manner.

10.2.4. Inventories. Investments in inventories shall be held to a minimum, consistent with the maintenance of adequate stocks of proper quality to meet demand.

10.2.5. Borrowing Policies. DoD Component NAFIs shall base all borrowing decisions on sound economic and financial management factors for the best

possible cost/benefit relationship for both borrower and lender. To the extent funds are not available from within the Component, inter-Component borrowing at DoD Component level will be considered as an alternative to commercial borrowing. Components shall establish procedures to consummate inter-Component borrowing transactions when the Components concerned determine that such loans are mutually advantageous.

10.2.6. U.S. Severance Pay and Related Benefits. Those DoD Components whose NAFIs accrue liabilities for U.S. severance pay and related benefits shall set aside funds on a regular and current basis for eventual use in defraying severance liabilities. While factors such as NAFI size, experience, expectation, and relationship of the amount of payments to overall NAFI operating capital enter into such determinations, DoD Components should not unnecessarily restrict cash that could be more appropriately used to further NAFI financial objectives. In any circumstances, DoD Component NAFIs must ensure sufficient cash availability to defray payment of all severance benefits for United States employees when due.

10.2.7. Severance Pay--Foreign Nationals (FNs). Nonappropriated funds shall be set aside for investment on a regular and current basis when they are to be used to make direct payments to FN employees upon their separation from DoD NAFI employment. Funds set aside and invested for this purpose shall be appropriately identified and restricted from other use on DoD Component NAFI Balance Sheet Financial Statements. As a minimum, the amount set aside on a Component-wide basis must be sufficient to defray all severance payments likely to become due at any point in time, without recourse to other NAF assets within the DoD Component. In establishing such Component-wide funding levels, consideration must be given to those factors (size, nature, experience, and expectation) often applied to funding determinations under self-insurance programs. Additionally, to ensure the validity of statements of FN severance liabilities upon which funding determinations are based, the DoD Components shall establish procedures to verify their accuracy periodically and ensure that adequate nonappropriated funds are available to discharge these responsibilities when they are due and payable.

10.2.8. Retirement Plan Funding Policy. Policies pertaining to the management, investment, and administration of retirement plans are contained in DoD 1401.1-M reference (q).

10.2.9. Foreign Currency. Speculation in foreign currencies is prohibited. However, in foreign areas there may be valid reasons to acquire and use foreign currencies. Policies and procedures may be found respectively in DoD Directive

7360.11 (reference (r)) and in DoD Instruction 7360.9 (reference (s)).

10.2.9.1. Foreign currencies to meet payrolls and related costs shall be obtained as needed. Foreign currency holdings to pay the cost of routine operating expenses normally shall not exceed the level required for a 30-day period. Under exceptional conditions, DoD Components may approve the holding of a 45-day foreign currency requirement. Foreign currencies may be held at the discretion of the DoD Components concerned, in support of construction and severance, to avoid or minimize losses due to currency fluctuations and revaluations.

10.2.9.2. Factors to consider in making decisions regarding foreign currency include the probability of fluctuations, revaluations, and the comparative rate of return on foreign currency holdings as opposed to dollar instruments. U.S. military banking facilities or other financial institutions designated by the Treasury Department are to be used to hold currencies when authorized under host country law. In the absence of such institutions, funds shall be held in Foreign banks, as designated by the Treasury Department.

10.2.10. Distribution of Dividends. DoD Components shall ensure that funds received from Armed Services Exchanges and Other Resale and Revenue-Sharing Activities are equitably distributed by Military Service headquarters, major commands, local commands, or a combination of these based upon demonstrated MWR program needs.

#### 10.2.11. NAF-Financed Facilities and Structures

10.2.11.1. A building or structure constructed or purchased using nonappropriated funds shall not be diverted to a use other than in direct support of the MWR purpose for which it was acquired without the prior concurrence of the Head of the DoD Component, or a designee.

10.2.11.2. In accordance with 40 U.S.C. 485(c) (reference (t)), the net proceeds from the sale of a building or structure, acquired or constructed using nonappropriated fund resources and subsequently sold upon disposition of Government property, shall be credited to the applicable NAFI as determined by the DoD Component concerned. When the Component deems it uneconomical or impractical to ascertain the amount of net proceeds, the proceeds shall be credited to miscellaneous receipts of the U.S. Treasury.

## 11. ANALYSIS AND EVALUATION

11.1. DoD Components shall prescribe appropriate analysis and evaluation procedures and indicators to ensure that programs are meeting objectives for which established. The frequency and scope of prescribed requirements must be aligned to the financial management complexity or simplicity of the various activities involved. Performance of the analysis and evaluation function must be followed by the appropriate corrective actions.

11.2. At least annually, the ASD(FM&P) shall review DoD NAF investment practices and policies with NAFI investment fund managers, OASD(C) representatives, and consultants from outside the Department of Defense. This will provide a forum for the free exchange of information among DoD Components concerning short-term and long-term NAF investments, rates of return, and financial institutions.

11.3. Rates of return shall be calculated quarterly by DoD components for each investment fund. The short-term (i.e., non-retirement) rate of return shall be calculated in conformance with enclosure E11. The short-term rates of return shall be quarterly and fiscal year-to-date with the fiscal year beginning 1 October (e.g., 1 October - 31 March, see enclosure E11.). The exchange services will compute a quarterly rate of return using their quarterly intervals (e.g., quarter ending April 24) and a year-to-date rate of return using the beginning date of their fiscal year (e.g., January 24).

11.4. Rates of return should be completed not later than 60 days after the end of a particular quarter. The rates of return calculations will start with the first quarter beginning after this instruction has been officially approved. The initial year-to-date data will begin with the same beginning quarter. The initial year-to-date figures will be superseded when a normal year has begun. Each DoD Component shall maintain the rates of return calculations for presentation at the annual DoD NAF Review of Investment Management.

11.5. *Each of the Services will provide, at the annual DoD NAF Review of Investment Management, an annual update outlining their current investment policies, procedures, and audit compliance with Service and DoD IG findings. This information will also be due to ASD(FM&P) not later than the first day of the third month following the end of the organization's fiscal year.*

## 12. AUDITING

DoD audit policy is contained in DoD Directives 7600.2 and 7600.7 (references (u))



and (v)) and DoD Instructions 7600.3 and 7600.6 (references (w) and (x)).

### 13. RISK MANAGEMENT

DoD Components shall ensure that nonappropriated fund assets are adequately protected against loss. The methods in which assets are protected will encompass sound risk management principles that will not only protect the financial integrity of NAFIs, but will also satisfy all applicable insurance laws (both domestic and foreign) while providing the broadest, most cost-effective protection available. The techniques of handling the risk of loss shall be determined by each DoD Component.

#### 14. EFFECTIVE DATE AND IMPLEMENTATION

This Instruction is effective immediately. Forward two copies of implementing documents to the Assistant Secretary of Defense (Force Management and Personnel) within 120 days.



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#### Enclosures - 11

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E1. ENCLOSURE 1

REFERENCES, continued

- (d) [DoD Directive 5145.1](#), "General Counsel of the Department of Defense," January 7, 1959
- (e) DoD Directive 5000.19, "Policies for the Management and Control of Information Requirements," March 12, 1976
- (f) DoD 7220.9-M, "Department of Defense Accounting Manual," October 1983, authorized by DoD Instruction 7220.9, October 22, 1981
- (g) DoD Directive 1015.1, "Establishment, Management, and Control of Nonappropriated Fund Instrumentalities," August 19, 1981
- (h) DoD Instruction 4105.67, "Nonappropriated Fund Procurement Policy," October 2, 1981
- (i) DoD 5000.12-M, "DoD Manual for Standard Data Elements," October 1985 authorized by DoD Instruction 5000.12, April 27, 1965
- (j) DoD Directive 1015.4, "Assignment of Appropriated-Funded Personnel to Morale, Welfare, and Recreation Activities," April 26, 1983
- (k) DoD Directive 1015.6, "Funding of Morale, Welfare, and Recreation Programs," August 3, 1984
- (l) DoD Directive 1000.11, "Financial Institutions on DoD Installations," February 3, 1986
- (m) Treasury Department Circular 176, October 15, 1979 (Title 31, Code of Federal Regulations, Part 202)
- (n) DoD Instruction 1000.10, "Procedures Governing Credit Unions on DoD Installations," February 3, 1986
- (o) DoD Instruction 7360.5, "Military Payment Certificate System," June 14, 1977
- (p) Title 12, United States Code, Section 1832(a)
- (q) DoD 1401.1-M, "Personnel Policy Manual for Nonappropriated Fund Instrumentalities," authorized by DoD Instruction 1401.1, July 24, 1978
- (r) DoD Directive 7360.11, "Use of Foreign Currencies," September 8, 1981
- (s) DoD Instruction 7360.9, "Procedures for Use of Foreign Currencies, September 8, 1981
- (t) Title 40, United States Code, Section 485(c)
- (u) [DoD Directive 7600.2](#), "Audit Policies," January 10, 1985
- (v) DoD Directive 7600.7, "DoD Internal Audit Standards, Policies, and Procedures," October 31, 1983
- (w) DoD Instruction 7600.3, "Internal Audit in the Department of Defense," January

4, 1974

- (x) [DoD Instruction 7600.6](#), "Audit of Nonappropriated Funds and Related Activities," January 4, 1974
- (y) [DoD Instruction 1000.15](#), "Private Organizations on DoD Installations," September 22, 1978
- (z) DoD Instruction 1330.20, "Reporting of Morale, Welfare, and Recreational (MWR) Activities Personnel Information," September 4, 1980
- (aa) DoD Directive 4270.24, "Unspecified Minor Construction, Emergency Construction, and Restoration or Replacement of Damaged or Destroyed Facilities," March 21, 1983
- (bb) DoD Instruction 7510.4, "Uniform Policy for Charging Accessorial and/or Administrative Costs Incident to Issues, Sales, and Transfers of Materials, Supplies and Equipment," April 7, 1967

## E2. ENCLOSURE 2

### DEFINITIONS

E2.1.1. Accrual Basis of Accounting. The recognition in the books and records of account of the significant and accountable aspects of financial transactions or events as they occur. Under this basis, the accounting system provides a current systematic record of changes in assets, liabilities, and sources of funds growing out of the incurrence of costs and expenses, the earning of revenues, the receipt and disbursement of cash, and other financial transactions.

E2.1.2. Appropriated Resources. Assets (personnel, money, material, real property) provided from appropriated funds to support MWR functions.

E2.1.3. Depreciation Accounting. A system of accounting that distributes the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of such assets in a systematic and rational manner. It is a process of allocation, not of valuation.

E2.1.4. Direct Operations and Maintenance Support Costs. All appropriated fund costs of personnel assigned to MWR activities and all appropriated fund costs of supplies, equipment, travel, and contractual services related directly to MWR programs.

E2.1.5. Financial Management. That aspect of total management that provides direction, guidance, and control of financial operations to achieve program objectives through the application of planning, budgeting, accounting, reporting, management of resources, auditing, and analysis and evaluation.

E2.1.6. General and Administrative (G&A) Expenses. A classification of expense incurred in the general direction of an enterprise as a whole, as contrasted with expense of a more specific function, subject to direct allocation to a specific MWR activity.

E2.1.7. Morale, Welfare and Recreational (MWR) Activities. Those activities exclusive of private organizations as defined in DoD Instruction 1000.15 (reference (y)) located on military installations or on property controlled (by lease or other means) by a Military Department or furnished by a DoD contractor, which provide for the comfort, pleasure, contentment, and mental and physical improvement of authorized DoD personnel by providing recreational and free-time programs,

self-development programs, resale merchandise and services, or general welfare. MWR activities may be funded wholly with appropriated funds, primarily with nonappropriated funds, or with any combination of appropriated and nonappropriated funds.

E2.1.8. Nonappropriated Funds (NAFs). Cash and other assets received by NAFIs from sources other than monies appropriated by the Congress of the United States. NAFs are public monies; they are used for the collective benefit of military personnel, their dependents, and authorized civilians who generated them. These funds are separate and apart from funds that are recorded in the books of the Treasurer of the United States.

E2.1.9. Nonappropriated Fund Instrumentality (NAFI). An integral DoD organizational entity that performs Government functions. It acts to provide or assist other DoD organizations in providing MWR programs for military personnel and authorized civilians. It is established and maintained individually or jointly by the Heads of the DoD Components. As a fiscal entity, it maintains custody of and control over its nonappropriated funds. It is also responsible to carefully administer, safeguard, preserve, and maintain those appropriated fund resources made available to carry out its function. With its nonappropriated funds, it contributes to MWR programs of other authorized organizational entities when so authorized. It is not incorporated under the laws of any state or the District of Columbia, and it enjoys the legal status of an instrumentality of the United States.

E2.1.10. Rate of Return. Consists of a dollar-weighted yield, based on the actual cost of the assets, and a separate yield, based on the current market value of the assets. A sample of the computations necessary to compute rate of return is shown at enclosure E11.

E2.1.11. Resale Inventory. Designates the aggregate of those items of tangible personal property that are held as a stock of goods for sale in the ordinary course of business; in process of production for such sale; or to be consumed in the production of goods or services to be available for sale.

E3. ENCLOSURE 3FINANCIAL REPORTING CATEGORIES

CATEGORY	EXPLANATION OF EACH CATEGORY/SELECTIVE ACTIVITIES AS CONTAINED IN DOD DIRECTIVE 1015.1 (REFERENCE (G))
I. Armed Services Exchanges	Includes the functions of providing through the Components' Exchange Systems reimbursable goods and services to authorized patrons and funds to support other designated MWR programs.
II. Other Resale and Revenue-Sharing	Includes the functions of providing, other than through exchanges, reimbursable goods and services to authorized patrons, and funds to support other designated morale programs. Separate financial records pertaining to the following selected Category II activities shall be maintained at a level determined by DoD Components: <ul style="list-style-type: none"> <li>a. <u>Civilian Employee Restaurants/Cafeterias.</u></li> <li>b. <u>Class VI Stores/Consolidated Package Stores.</u></li> <li>c. <u>Stars and Stripes Newspapers.</u></li> </ul>
III. Military General Welfare and Recreation	Includes those functions of providing specific welfare and recreation programs for military personnel. Includes two subcategories: Category III.A., consisting of NAFIs that provide nonappropriated fund support and Category III.B., consisting of MWR activities that are generally administered by special services or recreation officers. These activities shall not be established, organized, or operated as NAFIs. They may be funded solely with appropriated funds, primarily with NAFs, or with any combination of these. Nonappropriated fund support, if any, shall be provided by NAFIs listed in Category III.A. <p>Subsidiary accounts of income and expense pertaining to the following selected Category III.B. activities shall be separately maintained at a level determined by DoD Components:</p> <ul style="list-style-type: none"> <li>a. <u>Armed Forces Recreation Centers</u> (includes all related sports/outdoor recreation/social programs operated in conjunction with these rest facilities).</li> <li>b. <u>Arts &amp; Craft</u> (includes automotive crafts).</li> <li>c. <u>Bowling</u> (includes all collateral operations financed as an integral part of this activity).</li> <li>d. <u>Child Care Centers.</u></li> <li>e. <u>Dependent Youth Activities.</u></li> <li>f. <u>Golf</u> (includes all collateral operations financed as an integral part of this activity).</li> <li>g. <u>Libraries.</u></li> </ul>

- h. Motion Pictures.
- i. Outdoor Recreation (includes operation of outdoor recreation areas, parks, beaches, marinas, riding stables, hunting and fishing areas, travel camps, campgrounds, equipment centers, hiking trails, motor sports activities, cabins and cottages).
- j. Recreation Center and Comparable Activities (includes T.V. viewing; games; amusement machines; dances; parties, group tours, service entertainment programs, music and theater activities; and travel, tour and ticket information (commercial ticketing activities)).
- k. Sports (exclusive of bowling and golf).

CATEGORY		EXPLANATION OF EACH CATEGORY/SELECTIVE ACTIVITIES AS CONTAINED IN DOD DIRECTIVE 1015.1 (REFERENCE (G))
IV.	Civilian Employee General Welfare and Recreation	Includes those functions of providing welfare and recreation programs for the primary use of DoD civilian employees.
V.	Open Messes	Includes the function of providing messing, including essential feeding, when required; social programs; services; and facilities. This may serve to provide installation protocol functions. This also includes command- and Component-level organizations and programs established primarily to support this function.
VI.	Other Membership Associations	Includes the function of providing MWR programs, services, and facilities (other than open messes) to special interest groups. These NAFIs neither receive revenue from nor distribute dividends to other NAFIs, except as approved by the DoD Component. Merchandise is sold only to members and is directly related to the purpose and function of the membership association.
VII.	Common Support Services NAFIs	Includes all NAFIs performing consolidated support services functions such as accounting, procurement, or personnel services for more than one category of NAFIs identified in this enclosure. This does not include staff management functions at installation, major command, or service headquarters levels, the costs of which are allocated, based on workload to the benefiting categories.
VIII.	Supplemental Mission Services NAFIs	Includes all NAFIs providing MWR services that supplement the mission of training, health, billeting, or other appropriated funded programs. (NOTE: Appropriated fund costs of these programs and the personnel assigned, shall be reported according to this Instruction only to the extent that they relate directly to the NAFI-operated functions. For example, appropriated fund costs of operating bachelor officers quarters shall not be charged to Category VIII. However, prorated costs of appropriated funded personnel who perform collateral duties of collecting, accounting, or disbursing nonappropriated funds shall be reported.)



E4. ENCLOSURE 4

(Identity)<sup>1</sup>  
DoD COMPONENT \_\_\_\_\_

STATEMENT OF NONAPPROPRIATED FUND INSTRUMENTALITIES  
INCOME AND EXPENSE  
(SAMPLE FORMAT)

FOR THE PERIOD ENDING \_\_\_\_\_

	Current Year FY	Prior Year FY
Sales	xxx	xxx
Cost of Goods Sold	(xxx)	(xxx)
GROSS MARGIN	(xxx)	(xxx)
Other Operating Income		
Participation Fees and Charges	xxx	xxx
Dues and Assessment	xxx	xxx
Concessionaire Payments	xxx	xxx
Other	xxx	xxx
Total Other Operating Income	xxx	xxx
GROSS OPERATING INCOME	xxx	xxx
Operating Expenses <sup>2</sup>	(xxx)	(xxx)
OPERATING MARGIN	xxx	xxx
Other		
Dividends	xxx	xxx
Grants	xxx	xxx
Other (Specify) <sup>2</sup>	xxx	xxx
Total Nonoperating Income	xxx	xxx
Other Expense (Specify) <sup>2</sup>	(xxx)	(xxx)
NET INCOME BEFORE EXTRAORDINARY ITEMS	xxx	xxx
Extraordinary Items (Specify) <sup>2</sup>	xxx	xxx
NET INCOME	xxx	xxx

<sup>1</sup> Show MWR category as in enclosure E3. Category VII. MWR activities shall not submit this statement since all NAF expenses are reimbursed and reported by benefiting NAFIs. Schedule A shall be prepared by Category VII. MWR activities to report only appropriated fund costs.

<sup>2</sup> A breakout of NAF expenses shall be shown on Schedule A, along with applicable appropriated support costs. NAF depreciation will be included as an operating expense. The sum of Operating Expenses, Other Expenses, and Extraordinary Expenses must equal total nonappropriated fund costs reported on Schedule A, enclosure E5.

E5. ENCLOSURE 5

SCHEDULE A TO INCOME AND EXPENSE STATEMENT  
(SAMPLE FORMAT)  
(Identity)<sup>1</sup>

DoD COMPONENT \_\_\_\_\_  
APPROPRIATED AND NONAPPROPRIATED FUND EXPENSE SUMMARY  
FOR PERIOD ENDING \_\_\_\_\_

<u>COST EXPENSE CAPTIONS</u> <sup>2</sup>	<u>APPROPRIATED AMOUNTS</u> <sup>3</sup> (Appropriation Identity) <sup>4</sup>	Total	<u>NONAPPROPRIATED AMOUNTS</u> <sup>5</sup>
Military Personnel	X X X X X	X	N/A
Civilian Personnel			
(Salaries & Wages)	X X X X X	X	X <sup>6</sup>
Civilian Personnel			
(Services & Benefits)	X X X X X	X	X <sup>6</sup>
Utilities & Rents	X X X X X	X	X
Communications	X X X X X	X	X
Maintenance & Repair			
(Including Minor Construction)	X X X X X	X	X
Supplies & Equipment	X X X X X	X	X
Transportation of Persons	X X X X X	X	X
Transportation of Things	X X X X X	X	X
Reimbursed Common Services	N/A	N/A	X
NAF Depreciation	N/A	N/A	X <sup>7</sup>
All Other Expense (Specify)	<u>X X X X X</u>	<u>X</u>	<u>X</u>
TOTAL EXPENSE	X X X X X X	X	X <sup>8</sup>

CAPITAL EXPENDITURE CAPTIONS

Construction of Facilities			
Appropriated	XXXXX	X	N/A
Nonappropriated (Legal Commitments) <sup>9</sup>	N/A	N/A	X
Equipment (Investment-Type)	X X X X X	<u>X</u>	<u>X</u>
TOTAL COSTS		<u>X</u>	<u>X<sup>7</sup></u>

- <sup>1</sup> Show MWR Category as in enclosure E3. Category VII activities shall include only appropriated expenses on this statement. (NAF expenses for common services are reimbursed by and shall be reported by benefiting MWR activities.)
- <sup>2</sup> Expense caption definitions are attached as enclosure E7.
- <sup>3</sup> Include all obligations during the fiscal period. Exclude reimbursements.
- <sup>4</sup> Show applicable appropriation captions (such as, O&M, procurement, military construction, RDT&E, and Industrial Funds).
- <sup>5</sup> Include all items of appropriated fund support reimbursed by nonappropriated funds.
- <sup>6</sup> These figures shall equal the totals of those reported on the "NAFI Employer Compensation and Benefit Programs Report" (DoD Instruction 1330.20, reference (z) for NAF employee salaries and benefits).
- <sup>7</sup> NAP depreciation represents write-off of capital purchases as they are used; therefore, depreciation expense should not be included in total costs after capital expenditures are added.
- <sup>8</sup> Nonappropriated expense total equals the total of Operating, Other, and Extraordinary Expenses shown on the Statement of Nonappropriated Fund Income and Expense (enclosure E4.).
- <sup>9</sup> Duly Executed Contractual Commitment.

E6. ENCLOSURE 6(Identity)<sup>1</sup>

DoD COMPONENT \_\_\_\_\_  
NONAPPROPRIATED FUND INSTRUMENTALITIES BALANCE SHEET  
 (SAMPLE FORMAT)  
 AS OF \_\_\_\_\_

<u>ASSETS</u>		<u>LIABILITIES</u>	
CURRENT:		CURRENT:	
CASH	X	ACCOUNTS PAYABLE	X
INVESTMENTS	X	OTHER	<u>X</u>
RECEIVABLES	X		
INVENTORIES	X		
OTHER	<u>X</u>		
TOTAL CURRENT ASSETS	X	TOTAL CURRENT LIABILITIES	X
NONCURRENT:		LONG TERM:	
NAFI FIXED ASSETS	X	LOANS PAYABLE	X
ACCUMULATED DEPRECIATION	( <u>X</u> )	OTHER	<u>X</u> <u>X</u>
NET BOOK VALUE	X	TOTAL LIABILITIES	X
OTHER FIXED ASSETS (GOVERNMENT TITLE)			
	X		
ACCUMULATED AMORTIZATION			
	( <u>X</u> )		
NET BOOK VALUE <sup>2</sup>	X		
OTHER	X	<u>NET WORTH</u> <sup>3</sup>	
		CAPITAL	<u>X</u>
TOTAL ASSETS	<u>X</u>	TOTAL LIABILITIES & NET WORTH	<u>X</u>

<sup>1</sup> Show MWR category as in enclosure E3. The Balance Sheet is not applicable to Category III.B. activities.

<sup>2</sup> An explanatory note will be made that "The title of real property financed with nonappropriated funds and reported hereon is vested with the U.S. Government."

<sup>3</sup> A reconciliation of net worth changes shall be shown here or on a separate schedule.

## E7. ENCLOSURE 7

### EXPENSE CAPTION DEFINITIONS

E7.1.1. Appropriated Fund Definitions. (It should be noted that the expense caption definitions do not coincide exactly with the elements of expense of DoD 7220.9-M (reference (f)).

#### E7.1.1.1. Military Personnel

E7.1.1.1.1. Includes the cost of the services of active duty forces military personnel computed according to policy in DoD 7220.9-M (reference (f)). It also includes personnel assigned or used in MWR activities on a permanent, temporary, intermittent, or collateral duty basis; does not include any person with less than 25 percent part-time or collateral duties with MWR activities. Costs will be accrued at the standard rates in proportion to time used in performing duties associated with MWR activities.

E7.1.1.1.2. Does not include personnel costs that are captured or part of a subsidiary costing system to the extent such costs are reported under another expense element of this report (for instance, if maintenance and repair costs include a proper allocation of labor charges, such labor charges will not be reported under personnel expenses).

E7.1.1.2. Civilian Personnel (Services and Benefits). Includes the cost of the services of civilian personnel paid from appropriated funds. It also includes personnel compensation and benefits, including employer contributions for Federal Employees Group Life Insurance, Civil Service Retirement, and Federal Employees Group Health Insurance. This also includes personnel assigned or use on a permanent, temporary, intermittent, or collateral duty basis. This does not include any person with less than 25 percent part-time or collateral duties with MWR activities. Costs shall be accrued in proportion to time used to perform duties associated with MWR activities. This does not include personnel costs that are captured as part of a subsidiary costing system to the extent such costs are reported under another expense element of this report.

#### E7.1.1.3. Utilities and Rents

E7.1.1.3.1. Includes the cost of heat, light, power, water, gas, electricity,

steam, and other utility services, except transportation and communication services. Utility costs shall be reported for all buildings and facilities used exclusively or predominantly for MWR activities. For buildings or facilities where a portion of the space is dedicated to predominantly MWR purposes and the remainder is used predominantly for non-MWR functions, utility costs shall be prorated.

E7.1.1.3.2. When metering devices are not available to measure utility costs for a given facility, an appropriate analytical prorationing formula may be used. Utilities may be prorated on the basis of relative square footage if such a method does not result in a gross distortion. Utility costs shall not be reported for a facility that is used predominantly for non-MWR purposes and only incidentally for MWR purposes.

E7.1.1.3.3. Includes rental of equipment (except transportation equipment) and rental of real property. When MWR activities occupy portions of blocks of space rented by the Government, rental charges shall be allocated to MWR activities. Relative square footage may be used as the basis for allocation if this does not produce a gross distortion of the true costs.

E7.1.1.4. Communications. Includes charges for the transmission of messages from place to place, postal charges, telephone and teletype service, or telephone installation charges. Costs shall include a fair and reasonable charge for the use of telephone instruments.

E7.1.1.5. Maintenance and Repair (Including Minor Construction)

E7.1.1.5.1. Includes maintenance and repair of equipment, facilities, and real property supplied through commercial contracts, or installation service functions such as post engineer or base civil engineer. Includes the erection, addition, expansion, extension, alteration, conversion or replacement of an existing facility or the relocation of a facility from one place to another, providing that the cost of such construction does not exceed the limits for minor construction as outlined in DoD Directive 4270.24 (reference (aa)).

E7.1.1.5.2. When repair or maintenance funded from appropriated funds is performed for MWR activities, costs shall be reported to include direct labor and materials. Overhead allocation for general and administrative expenses, supplies and miscellaneous materials, costs or equipment usage charges shall be included when subsidiary costing systems are available to allocate such overhead items of maintenance and repair jobs, or where such overhead allocation is necessary to prevent a gross underestimate of maintenance and repair costs. Maintenance and repair costs

allocated on the basis of job costing systems, using fixed charges or unit costs for specific categories of maintenance, may be used if such systems provide a reasonable aggregate estimate of maintenance and repair costs.

E7.1.1.5.3. Maintenance and repair costs shall be allocated to MWR activities on the basis of some form of job order system. Maintenance and repair of a shared facility not directly identifiable with either the MWR or non-MWR portion shall be allocated on a reasonable basis such as relative square footage. Minor maintenance and repair not separately identifiable as a maintenance and repair expense need not be allocated to this expense element as long as such costs are included under other expense elements, such as personnel or supplies.

E7.1.1.6. Supplies and Equipment. Includes the cost of supplies, equipment, and materials that are ordinarily consumed or expended within 2 years after they are put into use or are used to form a minor part of fixed property (such as repair parts). This does not include supplies consumed in maintenance and repair when the associated cost is reflected in the expense element "Maintenance and Repair" as identified in DoD 7220.9-M (reference (f)).

E7.1.1.7. Transportation of Persons. Includes travel and transportation of persons when the primary purpose of such travel and transportation is the conduct of MWR activities. Includes commercial transportation fares, rental of passenger-carrying vehicles, subsistence for travelers such as per diem allowances, incidental travel expenses such as baggage transfer and telephone expenses, mileage allowances and tolls, and charges for use of Government-owned passenger-carrying vehicles. For the latter, the expenses may be computed by using a standard cost per mile when actual expenses are not readily identifiable. Also includes temporary duty travel of personnel employed by, assigned to, or detailed to MWR programs, travel of participants in MWR programs, and permanent change of station (PCS) travel for civilians relocated to MWR programs and activities. (The expense shall be charged to the activity to which the civilian is relocated.)

E7.1.1.8. Transportation of Things. Includes expenses for the transportation of things, whether incurred through contract or use of Government resources. It also includes contractual charges by common and contract carrier, rental of trucks and other transportation equipment, use of nonpassenger vehicles from base motor pools, and transportation charges for Government airlift, sealift, and other transportation or logistic support. In addition, it includes transportation of household goods related to PCS travel for civilians relocated (on a full-time basis) to IWR programs and activities. (The expense shall be charged to the activity to which the

civilian is relocated.) Transportation costs of using Government vehicles may use a standard cost per mile or other appropriate method as long as it fairly estimates the cost. Charges for transportation by airlift, or sealift, shall be by the costing method that states a fair user charge covering both direct and overhead costs as prescribed in DoD Instruction 7510.4 (reference (bb)).

E7.1.1.9. Construction of Facilities. Includes costs associated with construction and acquisition of land funded by military construction appropriations meeting criteria for major construction as outlined in DoD Directive 4270.24 (reference (aa)). Costs shall be reported according to DoD 7220.9-M, chapter 36 of reference (f) (such as, progress payments on facility construction). Included are design modification, contract administration, inspection, supervision of construction, and other related costs.

E7.1.1.10. Equipment (Investment Type). Includes equipment having a useful life expectancy of more than 2 years and an acquisition cost of \$300 or more.

E7.1.2. Nonappropriated Fund Definitions. The various expense captions shall include aggregations of accounts from current NAF general ledger systems that most appropriately correspond to the appropriated fund definitions. Reimbursed common services include those expenses provided by Category VII activities and reimbursed by the benefiting category as identified in DoD Directive 1015.1 (reference (g)).



E8. ENCLOSURE 8

DoD COMPONENT \_\_\_\_\_  
 FUND IDENTIFICATION \_\_\_\_\_  
 NONAPPROPRIATED FUNDS AVAILABLE/PROJECTED USAGE  
 (SAMPLE FORMAT)  
 AS OF \_\_\_\_\_

	<u>Amount of Funds Invested</u>		
	<u>As of Close</u>	<u>As of Close</u>	<u>Percent</u>
	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
	<u>FY</u>	<u>FY</u>	
<u>FUNDS AVAILABLE</u>			
Operating Cash Invested in Central Banking Program			
Other Cash Resources/Local Balances:			
Local Bank Accounts			
Cash on Hand in Change Funds, Petty			
Cash Funds, & Conversion Funds			
Other Investments (Specify)			
Fixed Asset Sinking Funds			
Employee Benefit Sinking Funds <sup>1</sup> _____			
Total Funds <sup>2</sup>			
<u>VALIDATED COMMITMENTS</u>			
Cash for Continuing Operations (Compensating			
Bank Balances, Operations, Petty Cash, Change Funds,			
Accounts Payable, Other Current Liabilities, etc.)			
Employee Benefits (Specify) <sup>1</sup>			
Reduction in Long-Term Debt			
Capital Projects Included in MWR Three-Year Plan			
Planned Commitments Yet to be Validated _____			
Total Projected Usage <sup>2</sup>			

<sup>1</sup> Includes monies to be paid for employee retirement; severance; FICA: thrift or savings plans; medical, dental, and life insurance, plus disability (if not included in retirement) workers on pension; unemployment compensation; bonuses or incentive awards; moving expenses; and for time not worked due to sickness, death in family, annual leave, holidays, Reserve component drills, jury duty, etc.

<sup>2</sup> Total Funds Available should equal Total Projected Usage, since this report is to identify the purpose for which available funds are retained/invested.

E9. ENCLOSURE 9

EXHIBIT A

SAMPLE REPURCHASE AGREEMENT, SELLER'S LETTER

Dear Sirs:

From time to time, you may enter into repurchase transactions with us, evidenced by confirmation from us to you, pursuant to which we purchase from you specific securities and you agree to repurchase the same securities at a specified later date. Attachment 1 to this letter states the general terms and condition that shall apply to each such repurchase transaction. The confirmation of each such repurchase transaction, as supplemented by the attachment, shall constitute a binding agreement between us.

Please acknowledge your acceptance of the foregoing by signing and returning the enclosed copy of this letter.

Sincerely,

Agreed and accepted this       day of       19(   )

Attachments - 1

1. Seller's Agreement and General Terms and Conditions of Repurchase Agreements.

E9.A1. ATTACHMENT 1 TO ENCLOSURE 9

SELLER'S AGREEMENT GENERAL TERMS AND CONDITIONS OF  
REPURCHASE AGREEMENTS

E9.A1.1.1. Definitions. (a) (Name of NAFI); (b) "Buyer," the person purchasing securities from \_\_\_\_; (c) "Specific Repurchase Agreement," the confirmation setting forth the specific terms for an individual repurchase transaction in which \_\_\_\_ sells securities to Buyer and agrees to repurchase them; (d) "Purchased Securities," the securities sold by \_\_\_\_ to Buyer; (e) "Purchase Price," the price at which Purchased Securities are sold by \_\_\_\_ to Buyer; (f) "Purchase Date," the date on which Purchased Securities are sold by \_\_\_\_ to Buyer; (g) "Repurchase Date," the date provided in a Specific Repurchase Agreement on which \_\_\_\_ is to repurchase the Purchased Securities from Buyer; (h) "Repurchase Price," the price at which Purchased Securities are to be repurchased on the Repurchase Date (which is equal to the Purchase Price plus Interest); (i) "Interest," the interest component of the Repurchase Price; (j) "Interest Rate," the rate at which interest is calculated; (k) "Long-Term Specific Repurchase Agreement," a Specific Repurchase Agreement under which the Repurchase Date is more than 21 days after the Purchase Date; (l) "Pledged Securities," securities, other than Purchased Securities, pledged to Buyer by \_\_\_\_ to secure its obligations here-under; (m) "Cash Collateral," cash pledged to Buyer by \_\_\_\_ to secure its obligations hereunder; (n) "Collateral," Pledged Securities and/or Cash Collateral; (o) "Margin," the excess of (i) the market value of the Purchased Securities under a Specific Repurchase Agreement plus Attributable Collateral over (ii) the Repurchase Price thereunder; (p) "Original Margin," the excess on the Purchase Date of (i) the market value of the Purchased Securities under a Specific Repurchase Agreement over (ii) the Repurchase Price thereunder; (q) "Attributable Collateral," for purposes of determining the amount of Margin, Collateral attributed to individual Specific Repurchase Agreements on the basis that Collateral is first attributed to restore the Margin under each Specific Repurchase Agreement to the Original Margin and thereafter attributed pro rata on the basis of the Repurchase Prices; and (r) "Act of Insolvency," with respect to any person, the filing by such person of a petition in bankruptcy, adjudication of such person as insolvent or bankrupt, petition or application by such person for any receiver or trustee for itself or any substantial part of its property, commencement by such person of any proceeding relating to it under any reorganization, arrangement, dissolution or liquidation law, or the initiation of any such proceeding against such person if such person indicates by any act its consent thereto or if such proceeding is not dismissed within 30 days.

E9.A1.1.2. Security Interest and Possession. The buyer is hereby granted a security interest in and lien upon all Purchased Securities, Pledged Securities, and Cash Collateral. Upon Buyer's request, \_\_\_\_ shall deliver Purchased Securities and Pledged Securities to Buyer; provided, that \_\_\_\_ shall, without such request, deliver to Buyer Purchased Securities purchased by Buyer under Long-Term Specific Repurchase Agreements, unless Buyer authorizes \_\_\_\_ to retain such securities. All Cash Collateral shall be delivered by \_\_\_\_ to Buyer, but shall be segregated from other funds of Buyer and identified as Cash Collateral. On the Repurchase Date specified in a Specific Repurchase Agreement, Buyer's security interest in the Purchased Securities subject thereto shall be deemed released upon the tendering of payment therefor by \_\_\_\_ and Buyer shall there upon deliver to \_\_\_\_ any such Purchased Securities previously delivered by \_\_\_\_ to Buyer.

E9.A1.1.3. Margin Maintenance--Obligation. If at any time the Margin under a Specific Repurchase Agreement is not equal to at least 100% of the Original Margin, Buyer may from time to time require \_\_\_\_ to provide Collateral so that the Original Margin is restored. At the option of \_\_\_\_, the Collateral shall consist of Pledged U.S. Treasury Securities acceptable to buyer and/or Cash Collateral.

E9.A1.1.4. Margin Maintenance--Buyer's Obligation. If at any time the Margin under a Specific Repurchase Agreement exceeds 120% of the Original Margin (a "Margin Excess"), \_\_\_\_ may require Buyer to elect either (a) to deliver cash to \_\_\_\_ or (b) to release from its security interest and lien such Collateral (whether or not Attributable Collateral) and/or Purchased Securities thereunder as selects, or to elect some combination of (a) and (b), so that a Margin Excess no longer exists; provided, however, that \_\_\_\_ shall select Purchased Securities in the case of an election under clause (b) only if there is then no Collateral. Upon the release of any Collateral or Purchased Securities that were previously delivered by \_\_\_\_ to Buyer, Buyer shall return such Collateral or Purchased Securities to \_\_\_\_.

E9.A1.1.5. Principal Payments, Interest, and Dividends. Except as provided in paragraph E9.A1.1.12. below, all principal payments in respect of, and all interest and dividends paid or payable on, the Purchased Securities and Pledged Securities ("Income") shall be the property of and owned by \_\_\_\_\_. Buyer shall deliver Income to \_\_\_\_\_ on the date on which it is payable.

E9.A1.1.6. Substitution. \_\_\_\_\_ shall be entitled at any time to substitute U.S. Treasury Pledged Securities and/or Cash Collateral (the "Substituted Assets") for Purchased Securities, Pledged Securities, or Cash Collateral ("Replaced Assets"),

provided that the Substituted Assets are reasonably acceptable to Buyer and have a market value equal to at least the market value of the Replaced Assets.

E9.A1.1.7. Buyer Representations. The buyer represents and warrants that it is duly authorized to enter into this Agreement and the transactions contemplated in it and that the person signing this Agreement on behalf of Buyer is duly authorized to act on its behalf.

E9.A1.1.8. Representations. \_\_\_\_ represents and warrants that it is duly authorized to enter into this Agreement and the transactions contemplated in it and that the person signing this Agreement on behalf of \_\_\_\_ is duly authorized to act on its behalf.

E9.A1.1.9. Payment and Delivery. Unless otherwise mutually agreed, all payments hereunder and under each Specific Repurchase Agreement shall be in immediately available funds. All deliveries of securities by one party to the other party shall be in suitable form for delivery or shall be accompanied by duly executed instruments of transfer or assignment in blank and such other documentation as the party receiving possession may reasonably request. The buyer shall not, however, cause any such transfer of securities to be registered, except as provided in paragraph E9.A1.1.12., below. All deliveries shall be affected within the delivery time scheduled from time to time by the New York Clearing House Association.

E9.A1.1.10. Market Value Determination. The market value of all Purchased Securities and Pledged Securities shall be determined daily at the close of business by using the "bid" price for the securities in question as it appears in the most current issue of The Wall Street Journal or such other source as is mutually acceptable to Buyer and \_\_\_\_.

E9.A1.1.11. Segregation of Securities. All Purchased Securities and Pledged Securities, held by Buyer or his or her designated bank shall be segregated from other securities in the possession of the holder and shall be identified as subject to this Agreement. Segregation may be accomplished by appropriate identification on the books and records of the holder.

E9.A1.1.12. Default. In the event that (i) \_\_\_\_ fails to repurchase any Purchased Securities upon the Repurchase Date relating thereto; (ii) \_\_\_\_ fails, after one business day's notice, to comply with paragraph E9.A1.1.3., above, or (iii) an Act of Insolvency occurs with respect to \_\_\_\_ (each a "\_\_\_\_Default"):

E9.A1.1.12.1. At the option of Buyer, exercised by written notice to \_\_\_\_\_, obligations under each Specific Repurchase Agreement to repurchase Purchased Securities shall thereupon become immediately due and payable. In such event, the Repurchase Price under each Specific Repurchase Agreement shall be adjusted to equal the sum of (i) the Purchase Price plus (ii) interest thereon, at the Interest Rate, from the Purchase Date until payment thereof plus (iii) to the extent permitted by applicable law, interest on the Interest component of such adjusted Repurchase Price, at the Interest Rate, from the date on which the \_\_\_\_\_ Default occurs until the day of payment of such Interest component. Such adjusted Repurchase Price is hereafter referred to as the "\_\_\_\_\_ Liability."

E9.A1.1.12.2. If Buyer exercises the option referred to in subparagraph E9.A1.1.12.1. of this paragraph, all income payable thereafter shall be applied by Buyer to the Seller's Liability.

E9.A1.1.12.3. The buyer may, after giving one business day's notice to \_\_\_\_\_ (but no such notice shall be required in the event of an Act of Insolvency); (i) sell any or all Purchased Securities and/or any or all Pledged Securities and apply the proceeds thereof to the \_\_\_\_\_ Liability and/or (ii) apply Cash Collateral to the \_\_\_\_\_ Liability. All sales shall be in a recognized market at such price or prices as Buyer may reasonably deem satisfactory.

E9.A1.1.12.4. The buyer may register the transfer of any securities delivered to it by whether such delivery occurred subsequent or prior to the \_\_\_\_\_ Default.

E9.A1.1.13. Buyer Default. In the event that (i) Buyer fails to deliver any Purchased Securities to \_\_\_\_\_ upon the relevant Repurchase Date against payment therefor, (ii) Buyer fails to comply with paragraph E9.A1.1.4., above, or (iii) an Act of Insolvency occurs with respect to Buyer (each a "Buyer Default").

E10. ENCLOSURE 10

SAMPLE REPURCHASE AGREEMENT, PURCHASER'S LETTER

Dear Sirs:

From time to time, you may enter into repurchase transactions with us, evidenced by confirmations from us to you, pursuant to which you purchase from us specific securities and we agree to repurchase the same securities at a specific later date. Attachment 1 to this letter states the general terms and conditions that shall apply to each such repurchase transaction. The confirmation of each such repurchase transactions, as supplemented by shall constitute a binding agreement between us.

Please acknowledge your acceptance of the foregoing by signing and returning the enclosed copy of this letter.

Very truly yours,

Agreed and Accepted this       day of                      19(    )

Attachments - 1

1. Purchaser's Agreement - General Terms and Conditions of Repurchase Agreements.

E10.A1. ATTACHMENT 1 TO ENCLOSURE 10

PURCHASER'S AGREEMENT

GENERAL TERMS AND CONDITIONS OF REPURCHASE AGREEMENTS

E10.A1.1.1. Definitions. (a) (Name of NAFI); (b) "Seller," the person selling securities to \_\_\_\_\_; (c) "Specific Repurchase Agreement," the confirmation outlining the specific terms for an individual repurchase transaction in which Seller sells securities to and agrees to repurchase them; (d) "Purchased Securities," the securities sold to \_\_\_\_\_ by Seller; (e) "Purchase Price," the price at which Purchased Securities are sold to \_\_\_\_\_ by Seller; (f) "Purchase Date," the date on which Purchased Securities are sold to \_\_\_\_\_ by Seller; (g) "Repurchase Date," the date provided in a Specific Repurchase Agreement on which Seller is to repurchase the Purchased Securities from \_\_\_\_\_; (h) "Repurchase Price," the price at which Purchased Securities are to be repurchased on the Repurchase Date (which is equal to the Purchase Price plus Interest); (i) "Interest," the interest component of the Repurchase Price; (j) "Interest Rate," the rate at which Interest is calculated; (k) "Long-Term Specific Repurchase Agreement," a Specific Repurchase Agreement under which the Repurchase Date is more than 21 days after the Purchase Date; (l) "Pledged Securities," securities, other than Purchased Securities, pledged to \_\_\_\_\_ by Seller to secure its obligations hereunder; (m) "Cash Collateral," cash pledged to \_\_\_\_\_ by Seller to secure its obligations hereunder; (n) "Collateral," Pledged Securities and/or Cash Collateral; (o) "Margin," the excess of (i) the market value of the Purchased Securities under a Specific Repurchase Agreement plus Attributable Collateral over (ii) the Repurchase Price thereunder; (p) "Original Margin," the excess on the Purchase Date of (i) the market value of the Purchased Securities under a Specific Repurchase Agreement over (ii) the Repurchased Price thereunder; (q) "Attributable Collateral," for purpose of determining the amount of Margin, Collateral attributed to individual Specific Repurchase Agreements on the basis that Collateral is first attributed to restore the Margin under each Specific Repurchase Agreement to the Original Margin and thereafter attributed pro rata on the basis of the Repurchase Prices; and (r) "Act of Insolvency," with respect to any person, the filing by such person of a petition in bankruptcy, adjudication of such person as insolvent or bankrupt, petition or application by such person for any receiver or trustee for itself or any substantial part of its property, commencement by such person of any proceeding relating to it under any reorganization, arrangement, dissolution or liquidation law, or the initiation of any such proceeding against such person if such



person indicates by any act its consent thereto or if such proceeding is not dismissed within 30 days.

E10.A1.1.2. Security Interest and Possession.

\_\_\_\_\_ is hereby granted a security interest in and lien upon all purchased Securities, Pledged Securities and Cash Collateral. Upon \_\_\_\_\_ request, Seller shall deliver Purchased Securities and Pledged Securities to \_\_\_\_\_ provided, that Seller shall, without such request, deliver to Purchased Securities purchased by \_\_\_\_\_ under Long-Term Specific Repurchase Agreements, unless authorizes Seller to retain such securities. All Cash Collateral shall be delivered by Seller to \_\_\_\_\_ but shall be segregated from other funds of \_\_\_\_\_ and identified as Cash Collateral. On the Repurchase Date specified in a Specific Repurchase Agreement, \_\_\_\_\_ security interest in the Purchased Securities subject thereto shall be deemed released upon the tendering of payment there for by Seller, and \_\_\_\_\_ shall thereupon deliver to Seller any such Purchased Securities previously delivered by Seller to \_\_\_\_\_.

E10.A1.1.3. Margin Maintenance -- Seller's Obligation. If at any time the Margin under a Specific Repurchase Agreement is not equal to at least 100% of the Original Margin, \_\_\_\_\_ may from time to time require Seller to provide Collateral so that the Original Margin is restored. At the option of Seller, the Collateral shall consist of Pledged Securities reasonably acceptable to \_\_\_\_\_ and/or Cash Collateral.

E10.A1.1.4. Margin Maintenance \_\_\_\_\_ Obligation. If at any time the Margin under a Specific Repurchase Agreement exceeds 120% of the Original Margin (a "Margin Excess"), Seller may require \_\_\_\_\_ to elect either (a) to deliver cash to Seller or (b) to release from its security interest and lien such Collateral (whether or not Attributable Collateral) and/or Purchased Securities thereunder as Seller selects, or to elect some combination of (a) and (b), so that a Margin Excess no longer exists; provided, however, that Seller shall select Purchase Securities in the case of an election under clause (b) only if there is then no Collateral. Upon the release of any Collateral or Purchased Securities that were previously delivered by Seller to \_\_\_\_\_, \_\_\_\_\_ shall return such Collateral or Purchased Securities to Seller.

E10.A1.1.5. Principal Payments, Interest and Dividends. Except as provided in Paragraph E10.A1.1.11., below, all principal payments in respect of, and all interest

and dividends paid or payable on, the Purchased Securities and Pledged Securities ("Income") shall be the property of and owned by Seller. \_\_\_\_\_ shall deliver Income to Seller on the date on which it is payable.

E10.A1.1.6. Seller Representation. Seller represents and warrants that it is duly authorized to enter into this Agreement and the transactions contemplated hereunder and that the person signing this Agreement on behalf of Seller is duly authorized to act on its behalf.

E10.A1.1.7. Representations. \_\_\_\_\_ represents and warrants that it is duly authorized to enter into this Agreement and the transactions contemplated hereunder and that the person signing this Agreement on behalf of \_\_\_\_\_ is duly authorized to act on its behalf.

E10.A1.1.8. Payment and Delivery. Unless otherwise mutually agreed, all payments hereunder and under each Specific Repurchase Agreement shall be in immediately available funds. All deliveries of securities by one party thereto to the other party shall be in suitable form for delivery or shall be accompanied by duly executed instruments of transfer or assignment in blank and such other documentation as the party receiving possession may reasonably request. \_\_\_\_\_ shall not, however, cause any such transfer of securities to be registered, except as provided in paragraph E10.A1.1.11., below. All deliveries shall be effected within the delivery time scheduled from time to time by bank wire.

E10.A1.1.9. Market Value Determination. The market value of all Purchased Securities and Pledged Securities shall be determined daily at the close of business by using the "bid" price for the securities in question as it appears in the most current issue of The Wall Street Journal or such other source as is mutually acceptable to Seller and \_\_\_\_\_.

E10.A1.1.10. Segregation of Securities. All Purchased Securities and Pledged Securities, whether held by \_\_\_\_\_ or Seller, shall be segregated from other securities in the possession of the holder and shall be identified as subject to this Agreement. Segregation may be accomplished by appropriate identification on the books and records of the holder.

E10.A1.1.11. Seller Default. In the event that (i) Seller fails to repurchase any Purchased Securities upon the Repurchase Data relating thereto, (ii) Seller fails, after one business day's notice, to comply with paragraph E10.A1.1.3., above, or (iii) an Act of Insolvency occurs with respect to Seller (each a "Seller Default"):

E10.A1.1.11.1. At the option of \_\_\_\_\_, exercised by written notice to Seller, Seller's obligation under each Specific Repurchase Agreement to repurchase Purchased Securities shall thereupon become immediately due and payable. In such event, the Repurchase Price under each Specific Repurchase Agreement shall be adjusted to equal the sum of (i) the Purchase Price plus (ii) interest thereon, at the Interest Rate, from the Purchase Date until payment thereof plus (iii) to the extent permitted by applicable law, interest on the Interest component of such adjusted Repurchase Price, at the Interest Rate, from the date on which the Seller Default occurs until the date of payment of such Interest component. Such adjusted Repurchase Price is hereafter referred to as the "Seller Liability."

E10.A1.1.11.2. If \_\_\_\_\_ exercises the option referred to in subparagraph E10.A1.1.11.1., all Income payable thereafter shall be applied by buying to the Seller Liability.

E10.A1.1.11.3. \_\_\_\_\_ may, after giving one business day's notice to Seller (but no such notice shall be required in the event of an Act of Insolvency), (i) sell any or all Purchased Securities and/or any or all Pledged Securities and apply the proceeds thereof to the Seller Liability and/or (ii) apply Cash Collateral to the Seller Liability. All sales shall be in a recognized market at such price or prices as \_\_\_\_\_ may reasonably deem satisfactory.

E10.A1.1.11.4. Seller shall immediately deliver to \_\_\_\_\_ any Purchased Securities and Pledged Securities then in Seller's possession.

E10.A1.1.11.5. \_\_\_\_\_ may register the transfer of any securities delivered to it by Seller, whether such delivery occurred subsequent or prior to the Seller Default.

E10.A1.1.12. Default. In the event that (i) \_\_\_\_\_ fails to deliver any Purchased Securities to Seller upon the relevant Repurchase Date against payment therefor; (ii) \_\_\_\_\_ fails to comply with Paragraph E10.A1.1.4., above, or (iii) an Act of Insolvency occurs with respect to (each a "Default"):

E10.A1.1.12.1. At the option of Seller and upon tendering of payment of the aggregate Repurchase prices (reduced as provided in the next sentence), all Specific Repurchase Agreements shall mature. Thereupon, (i) interest in Purchased Securities, Pledged Securities, and Cash Collateral shall be deemed released, and shall deliver all such securities and cash to Seller and (ii) interest shall cease to accrue, and each

Repurchase Price shall be reduced to reflect such cessation.

E10.A1.1.12.2. The seller may purchase securities ("Replacement Securities") of the same class and amount as any Purchased Securities or pledged Securities that are not delivered by \_\_\_\_\_ to Seller as required hereunder. Such purchase may be made in any recognized market at such prices as Seller may reasonably deem satisfactory. \_\_\_\_\_ shall be liable to Seller (the "\_\_\_\_\_ Liability") (i), with respect to Purchased Securities, for any excess of the price paid by Seller for Replacement Securities over the Repurchase Price (reduced as, provided above) and (ii), with respect to Pledged Securities, for the price paid by Seller for the Replacement Securities. In addition, \_\_\_\_\_ shall be liable to Seller for interest on the \_\_\_\_\_ Liability with respect to each such purchase of Replacement Securities from the date thereof until paid in full by \_\_\_\_\_. Such interest shall be at a rate equal to the prime rate for short-term bank commercial loans, as published in the Wall Street Journal, changing as such published rate changes.

In the event of \_\_\_\_\_ Default under clause (i) or (ii) of this paragraph, subparagraphs E10.A1.1.12.1. and E10.A1.1.12.2. hereof shall be effective only upon one business day's notice to Seller.

E10.A1.1.13. The transactions subject to these terms and conditions shall be governed by the laws of the State of \_\_\_\_\_ .

## E11. ENCLOSURE 11

### Calculation of the Rate of Return for Short-Term Investments

E11.1.1. Introduction. The purpose of this enclosure is to provide a methodology to compute the rate of return for the short-term investment portfolio (see subsection 11.3.). Paragraph E11.1.2. of this enclosure discusses the quarterly rate of return and paragraph E11.1.3. discusses the year-to-date rate of return.

E11.1.2. Quarterly Rate of Return. The following example shows how this rate of return is computed. Repurchase Agreements will always be included as a separate asset. In doing the computations, the fund manager should complete column 6 (Current Market Value) first. This allows the manager to determine the corresponding original cost of the investment in column 2 (regardless of when the asset was purchased). All other columns can then be computed. The comparison of each investments Current Market Value (CMV) in column 6 and the original cost (column 2) must be the same investment (e.g., a 1-year Certificate of Deposit from Bank X). However, CMV yields for CDs (Column 8) may also be obtained from any nationally recognized source for CD interest rate yields. This source should provide different current yields for different maturities (e.g., less than 1 year, 1-3 years). These maturities should correspond closely with the original maturities of the actual portfolio (Column 2). The same applies for the comparison of yields (yield at cost vs. yield at current market value, columns 4 and 8). The weighted average maturity will also be computed for the portfolio as of the last day of each quarter and dollar-weighted by the original cost (column 3).

## Computation of Rate of Return for Short-Term Portfolio

Fund X

Quarter Ending 31 December 1986

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	- Original Cost -					- Current Market Value -		
<u>Asset</u>	<u>Original Cost</u>	<u>Pct. of Portfolio</u>	<u>Ann. Yield at Cost*</u>	<u>Dollar-Weighted Average Yield at Cost (Col 3x4)</u>	<u>Current Market Value (CMV)</u>	<u>Pct. of Portfolio</u>	<u>Current Ann. Yield at CMV*</u>	<u>Dollar-Weighted Average Yield at CMV (Col 7x8)</u>
CDs	\$ 500,000	50.0%	10.0%	5.00%	\$ 500,000	48.8%	9.50%	4.64%
U.S. Treasury	200,000	20.0	8.0	1.60	210,000	20.5	7.50	1.54
FNMA	100,000	10.0	11.0	1.10	105,000	10.2	10.50	1.07
<u>RPs</u>	<u>200,000</u>	<u>20.0</u>	<u>9.0</u>	<u>1.80</u>	<u>210,000</u>	<u>20.5</u>	<u>8.50</u>	<u>1.74</u>
Totals	\$1,000,000	100.0%	----	9.50%	1,025,000	100.0%	----	8.99%

Percentage Change in Value of Assets =  $\frac{\text{CMV} - \text{Original Cost}}{\text{Original Cost}}$  =  $\frac{\$1,025,000 - 1,000,000}{1,000,000}$  = + 2.50%

Dollar-Weighted Average Maturity: 75 days

\* Compute Yield to Maturity (YTM)

## Abbreviations:

Pct.: Percent

Ann.: Annual

CMV: Current Market Value

CDs: Certificates of Deposit (may be listed separately or as lump sum)

U.S. Treasury: United States Treasury Securities only (Bills, Notes, Bonds)

FNMA: Federal National Mortgage Association

RPs: Repurchase Agreements

**E11.1.3. Year-To-Date Rate of Return.** This computation will involve use of the “Total Weighted Average Yield At Cost” (Column 5 = 9.50% in example) and the “Total Weighted Average Yield at Current Market Value” (Column 9 = 8.99% in example). No percentage change in the value of assets will be computed because the dollar value of assets will be computed because the dollar value of assets will fluctuate as additions/disbursements are made from the short-term portfolio and because a specific point in time is selected (i.e., the beginning of a fiscal year). The “Total Current Market Value” of weighted yields computed for the quarterly rates of return will be used to compute the year-to-date rate of return. The following two examples using hypothetical data show how the year-to-date yield will be computed. As stated in subsection 11.3., the exchange services will provide two computations: a fiscal year-to-date based on their fiscal year and a fiscal year-to-date based on a fiscal year

beginning 1 October (or nearest end-of-month date for the exchange service in preceding month of September).

Example 1 (First Quarter of Fiscal Year):

Computation of the Fiscal Year-To-Date Rate of Return For Short-Term Portfolio

Fund X

1 October - 31 December 1986

<u>Date</u>	<u>Dollar-Weighted Average Yield At Cost (Col. 5)</u>	<u>Dollar-Weighted Average Yield At Current Market Value (Col. 9)</u>	<u>Current Market Value of Portfolio (Col. 6)</u>	<u>Dollar-Weighted Average Maturity</u>
1 Oct 86	10.20%	9.75%	\$ 900,000	83 days
31 Dec 86	<u>9.50</u>	<u>8.99</u>	<u>1,025,000</u>	<u>75</u>
Averages	9.85%	9.37%	\$ 962,500	79 days

Notes:

- (1) The supporting data for 1 October must be supplied. This involves completing a portfolio as of 1 October in the same manner as completed for the previous day, 30 September (see example in enclosure E11., paragraph E11.1.2.).
- (2) All averages are simple arithmetic averages.
- (3) Column references are from the example in enclosure E11., paragraph E11.1.2.

Example 2 (Complete Fiscal Year):

Computation of the Fiscal Year-To-Date Rate of Return For Short-Term Portfolio

Fund X

1 October - 30 September 1987

<u>Date</u>	<u>Dollar-Weighted Average Yield At Cost (Col. 5)</u>	<u>Dollar-Weighted Average Yield At Current Market Value (Col. 9)</u>	<u>Current Market Value of Portfolio (Col. 6)</u>	<u>Dollar-Weighted Average Maturity</u>
1 Oct 86	10.20%	9.75%	\$ 900,000	83 days
31 Dec 86	9.50	8.99	1,025,000	75
31 Mar 87	9.20	9.00	750,000	73
30 Jun 87	9.10	9.20	1,000,000	70
30 Sep 87	<u>9.80</u>	<u>9.30</u>	<u>1,110,000</u>	<u>80</u>
Averages	9.56%	9.25%	\$ 957,000	76.2 days

Notes:

- (1) The supporting data for 1 October must be supplied. This involves completing a portfolio as of 1 October in the same manner as completed for the previous day, 30 September (see example in enclosure E11., paragraph E11.1.2.).
- (2) All averages are simple arithmetic averages.
- (3) Column references are from the example in enclosure E11., paragraph E11.1.2.